

**IRVIN WATER DISTRICT NO. 6**  
**Spokane County, Washington**  
**Special Audit**  
**October 1, 1993 Through February 23, 1995**

---

**Schedule Of Findings**

---

1. Public Funds Were Misappropriated And Accounting Records Were Falsified

Our audit of the financial records of Irvin Water District revealed that at least \$2,557.60 in public funds were misappropriated by the district's office manager during the period October 1, 1993, through February 23, 1995. Accounting records were falsified in an attempt to conceal these losses. There were no federal funds involved in this case. The schedule below summarizes these losses:

<u>Description</u>	<u>Amount</u>
Excess Payroll	\$1,412.60
Excess Insurance Premiums	<u>1,145.00</u>
Total Losses	<u>\$2,557.60</u>

These funds were misappropriated as described below.

- a. During the period December 22, 1993, through February 18, 1994, the office manager was paid for 144 more hours than she actually worked. The office manager admitted that she was on annual vacation during this period of time. During the period February 19, 1994, through March 24, 1994, the office manager also recorded retroactive pay for the same 144 hours. During the period January 17, 1995, through February 17, 1995, district officials observed the office manager's work attendance and found that she was not at work for an additional 36.5 hours during this period of time. The office manager falsified her own payroll records to conceal these absences. The amount of loss from this method was \$1,412.60.
- b. During the period October 1, 1993, through February 23, 1995, the district made premium payments to an insurance company which were in excess of the authorized monthly amount for the office manager. She then directed the insurance company to apply the excess premium amount to another policy for her daughter's family. She also falsified a district resolution and the minutes of a board of director's meeting to conceal these activities. The amount of loss from this method was \$1,145.

The office manager was solely responsible for all district accounting functions during the period of this loss. When we discussed these irregularities with the office manager on March 23, 1995, and September 1, 1995, she admitted that she had falsified district records.

RCW 9A.56.030 states:

Theft in the first degree. (1) A person is guilty of theft in the first degree if he commits theft of:

(a) Property or services which exceed(s) one thousand five hundred dollars in value; or

(b) Property of any value taken from the person of another.

(2) Theft in the first degree is a class B felony.

RCW 9A.60.020 states:

Forgery. (1) A person is guilty of forgery if, with intent to injure or defraud:

(a) He falsely makes, completes, or alters a written instrument or;

(b) He possesses, utters, offers, disposes of, or puts off as true a written instrument which he knows to be forged.

(2) Forgery is a class C felony.

The following internal control weakness allowed this misappropriation of public funds to occur and not be detected by district officials in a timely manner. There was an inadequate segregation of duties. All district accounting functions were the sole responsibility of the office manager. However, there was no periodic management review of the work performed by the office manager which would accomplish the same objective as a segregation of duties between two or more employees.

We recommend the district seek recovery of the misappropriated \$2,557.60 and related audit/investigation costs from the office manager and their insurance bonding company. We further recommend the Washington State Office of the Attorney General and the Spokane County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for district employees is as follows:

Houston General Insurance Company  
Blanket Employee Dishonesty Bond  
Policy No. CMP9442759-02  
\$30,000 With \$250 Deductible Provision  
February 24, 1993, to February 24, 1996

We also recommend the district:

- a. Review overall accounting controls, correct the weakness outlined above, and as further discussed in Finding 2 of this report, and implement an effective system of internal control designed to ensure the protection of public assets.
- b. Notify the insurance bonding company of this loss of funds.



2. The District Should Implement Internal Controls To Safeguard District Assets

Our audit revealed that the district had not implemented an effective system of internal control for overall district operations needed to properly safeguard assets. The district's office manager was responsible for all accounting functions. No one periodically reviewed the work performed by the office manager which would accomplish the same objective as a segregation of duties between two or more employees.

Our audit disclosed the following internal control weaknesses:

a. Cash Receipting:

(1) No one independently verified or reconciled the accuracy of the deposits with the receipt documents. No one ensured that all money collected by the district was deposited for the district's benefit.

(2) Receipts were rarely issued, but when they were, rediform receipts were used. There was a lack of accountability for money received by the district.

(3) Cash and check composition (mode of payment) was not noted on receipt documents. This information is necessary to prevent and detect a common scheme used to steal funds.

(4) Deposits were not made intact. Some checks were not immediately deposited.

b. Accounts Receivable:

(1) No one independently verified or reconciled billings, payments, and adjustments made to customer accounts.

(2) A control account was not established. The district could not ensure that the total outstanding balances were accurate or reliable.

(3) Although the office manager periodically waived penalties, the district had not adopted a policy on waivers.

(4) Completed customer account cards were neither numerically nor alphabetically filed making it impossible to retrieve customer information.

(5) Customer account numbers were duplicated. The district could not ensure that its records captured the entire customer population.

(6) No accounts receivable aging report was maintained. We could not determine how many or how long customer accounts were delinquent.

c. Disbursements:

(1) The district has not adopted policies or procedures governing wages and benefits. Time sheets documenting hours worked and leave taken were not required. In addition, a record was not maintained of employee leave balances.

(2) Claims were not properly authorized. No one reviewed claims to ensure that they were legitimate district expenditures.

The American Institute of Certified Public Accountants' *Audits of State and Local Government Units*, Revised Edition, states in Section 3.13:

Management should understand its responsibilities to implement and maintain adequate internal control systems and should be capable of:

Initiating procedures to detect areas of operation particularly vulnerable to fraud and misuse of assets or circumstances that may adversely affect the reliability of the government's financial statements.

Establishing procedures to monitor and evaluate compliance with internal control systems.

Instituting timely action to correct identified internal control system weaknesses.

RCW 42.24.080 states in part:

All claims presented against any . . . district . . . by persons furnishing materials, rendering services or performing labor, or for any other contractual purpose, shall be audited, before payment, by an auditing officer elected or appointed pursuant to statute or, in the absence of statute, an appropriate charter provision, ordinance or resolution of the municipal corporation or political subdivision . . . .

Internal controls were not implemented, because the commissioners trusted the office manager. The lack of internal controls increases the risk that errors and/or theft could occur and not be detected in a timely manner, if at all.

We recommend the district review overall operations and adopt policies and procedures to implement strong internal controls. To implement strong controls the district should perform the following, which is not an all inclusive list:

- a. Segregate duties. Separate the cash control and accounting functions. Perform timely reviews, approvals and reconciliations.
- b. Issue preaddressed, preprinted and prenumbered cash receipts which note the mode of payment.
- c. Deposit money intact. Do not hold checks for customers.
- d. Utilize the new computer system to record all customers and their related transactions. Print and maintain available reports.
- e. Maintain an accounts receivable control account and compare it to the computer system.
- f. Require time sheets which document hours worked and leave taken. Have time sheets signed by the district employee and approved by the supervisor.
- g. Keep a record of leave balances which includes leave earned and used.
- h. Properly review and approve district claims including the Revolving Fund checking account.



3. The District Should Comply With Conflict Of Interest Laws

The district is in violation of the conflict of interest laws, because its commissioner and its former office manager are married. The office manager was employed for the past nine years. Her husband became a commissioner in 1994. In 1994 total payments to the office manager for salary and benefits were \$24,551.

RCW 42.23.030 states in part:

No municipal officer shall be beneficially interested, directly or indirectly, in any contract which may be made by, through or under the supervision of such officer, in whole or in part, or which may be made for the benefit of his or her office, or accept, directly or indirectly, any compensation, gratuity or reward in connection with such contract from any person beneficially interested therein . . . .

As a result of the relationship between the office manager and commissioner, the district may not have been operated in the best interest of the public. This violation occurred because the district was unaware of the laws.

We recommend the district comply with the conflict of interest laws.